

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-02 H-02 PA-01 PRS-01 AGR-05 /089 W

----- 052147

R 062120Z MAY 75

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 109

INFO AMEMBASSY BOGOTA

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY QUITO

AMCONSUL GUAYAQUIL

AMEMBASSY TEGUCIGALPA

LIMITED OFFICIAL USE SECTION 1 OF 2 SAN JOSE 1822

E.O. 11652: N/A

TAGS: ETRD, CS

SUBJECT: NEW BANANA TAX DECREE

REF: SAN JOSE 1738

BEGIN SUMMARY

1. COSTA RICA'S NEW BANANA TAX OF 45 CENTS PER BOX HAS NOW ENTERED INTO EFFECT, TOGETHER WITH AN INCREASE IN THE PRICE PAID TO INDEPENDENT BANANA GROWERS (PRECIO DE SALIDA) TO \$2.15. THE DECREE, NO. 4780 H, WAS DATED APRIL 26 AND WAS PUBLISHED IN THE OFFICIAL GAZETTE OF MAY 3. AS THE INCREASE IN THE PRECIO DE SALIDA PAID TO SOME INDEPENDENT GROWERS AMOUNTS TO 55 CENTS, THE GOVERNMENT ASSERTS

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THAT IT IS NOW COLLDWTING THE FULL \$1.00 TAX ORIGINALLY

PROCLAIMED BY THE FIGUERES ADMINISTRATION.

ALMOST NOBODY IS HAPPY WITH THE DECREE, AND THE GOCR MAY YET HAVE TO RECONSIDER IT. END SUMMARY.

2. THE EFFECT OF THE DRCREE WILL VARY BY COMPANY. UNITED BRANDS, WHICH GROWS MOST OF ITS OWN FRUIT, WILL PAY ONLY THE 45 CENT TAX ON MOST OF ITS PRODUCTION. OTHER COMPANIES THAT BUY A LARGE PORTION OF THEIR EXPORTS FROM INDEPENDENT GROWERS WILL BE HIT WITH NOT ONLY THE 45 CENT TAX BUT ALSO THE INCREASE IN THE PRECIO DE SALIDA. FOR STANDARD FRUIT, WHICH WAS ALREADY PAYING THE \$1.98 PER BOX, THE INCREASE IN THE PRECIO DE SALIDA WILL BE ONLY 17 CENTS. OTHER COMPANIES THAT WERE PAYING ONLY \$1.60 WILL FEEL THE FULL 55 CENT INCREASE IN THE PRECIO DE SALIDA.

3. UNITED BRANDS GENERAL MANAGER VICTOR HEYL TOLD EMBOFFS LAST NIGHT THAT FRUIT CONTINUES TO MOVE NORMALLY, AS PRICES AT THIS TIME ARE VERY HIGH IN THE U.S., OWING TO A SHORTAGE OF FRUIT CAUSED BY THE LOSS OF HONDURAN PRODUCTION. HE EXPECTS SOME HONDURAN PRODUCTION TO BE BACK ON THE MARKET BY EARLY JULY, AT WHICH TIME DEMAND WILL HAVE DECREASED AS IT NORMALLY DOES IN THE SUMMER SEASON WITH THE AVAILABILITY OF LOCAL FRUIT IN THE U.S., AND WITH SCHOOLS OUT OF SESSION. THEREFORE, HE EXPECTS THAT BY JULY THE PRICE OF FRUIT IN THE U.S. WILL FALL SHARPLY AND SUBSTANTIAL QUANTITIES OF COSTA RICAN BANANAS WILL BE WITHOUT A MARKET AT THE HIGH TAX LEVELS PROCLAIMED BY THE GOVERNMENT. MEANWHILE, HIS COMPANY CONTINUES TO PAY THE TAX UNDER PROTEST AND WILL PURSUE ITS COURT CASE CHALLENGING THE LEGALITY OF THE BANANA TAX.

4. REPRESENTATIVES OF THE NATIONAL BANANA ASSOCIATION (ASBANA) CALLED ON PRESIDENT ODUBER YESTERDAY AFTERNOON TO EXPRESS THE PREOCCUPATION OF LIMITED OFFICIAL USE

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INDEPENDENT BANANA GROWERS ABOUT DECREE 4780 H. ACCORDING TO EXCELSIOR, THEY MADE THE FOLLOWING POINTS:

1) THE PRECIO DE SALIDA SHOULD BE FLEXIBLE BECAUSE THE PRESENT HIGH PRICE MAY SOON FALL;

2) A PRECIOCSE SALIDA OF \$2.15 IS GOOD FOR

SOME GROWERS BUT IS INSUFFICIENT FOR OTHERS
AND THE GOVERNMENT SHOULD GIVE A PORTION
OF ITS 45 CENT TAX TO THE LATTER;

3) SECOND AND THIRD QUALITY BANANAS SHOULD
BE EXEMPTED FROM THE EXPORT TAX TO PREVENT
POSSIBLE HEAVY LOSSES FOR PRODUCERS;

4) THE GOVERNMENT SHOULD STUDY A PLAN TO
PERMIT INDEPENDENT PRODUCERS TO IMPROVE

THEIR PRESENT CAPACITY TO EXPORT DIRECTLY.

5. REPRESENTATIVES OF THE LARGE BANANA COMPANIES
HAVE BEEN SEEKING IN VAIN AN INTERVIEW WITH
PRESIDENT ODUBER. AFTER ANNOUNCEMENT OF THE NEW
BANANA DECREE IN THE PRESS, BUT PRIOR TO ITS
PUBLICATION IN THE OFFICIAL GAZETTE, THEY SENT A
TELEGRAM TO THE PRESIDENT EXPRESSING THEIR DISMAY
AND ANGUISH CONCERNING THE GOVERNMENT'S PROPOSAL.
THEIR TELEGRAM SAID THAT STUDIES HAVE DEMONSTRATED
THAT THE NEW TAX WOULD LEAD INEVITABLY TO THE RUIN
AND ANNIHILATION OF THE BANANA INDUSTRY OF COSTA
RICA. THE TELEGRAM SAID THAT NEW TAXES WHICH DID
NOT RESPOND TO ECONOMIC REALITIES WOULD INEVITABLY
LEAD THE BANANA COMPANIES TO THE NECESSITY OF
REDUCING THEIR EXPORTS. THE TELEGRAM WAS SIGNED
BY THE HEADS OF STANDARD FRUIT, UNITED BRANDS,
COBOL, BANDECO, THE ATLANTIC BANANA GROWERS
ASSOCIATION (INDEPENDENTS WHO SELL TO STANDARD
FRUIT) AND THE NATIONAL BANANA CHAMBER.

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----- 052081

R 062120Z MAY 75
FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC 110
INFO AMEMBASSY BOGOTA
AMEMBASSY GUATEMALA
AMEMBASSY MANAGUA
AMEMBASSY PANAMA
AMEMBASSY QUITO
AMCONSUL GUAYAQUIL
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6. COMMENT. IT APPEARS OBVIOUS THAT THE BANANA WAR IS NOT OVER AND THE TREND OF ONE MONTH AGO TOWARD A REASONABLE SETTLEMENT HAS BEEN REVERSED. THERE ARE SEVERAL POSSIBLE DIRECTIONS IN WHICH THE PROBLEM COULD NOW MOVE:

1) THE GOVERNMENT MIGHT MAKE SOME MODIFICATION TO THE DECREE, SINCE EVEN THE INDEPENDENT GROWERS ARE NOT HAPPY WITH IT, OR

2) THINGS MIGHT BE LEFT PRETTY MUCH AS THEY ARE UNTIL THE PRICE OF BANANAS FALLS ENOUGH TO BRING ABOUT A DROP IN PRODUCTION THAT WOULD FORCE THE GOVERNMENT TO RECONSIDER ITS POSITION, OR

3) THE PROBLEM MIGHT BE SOLVED IN THE COURTS IF
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A JUDGMENT IS RENDERED IN FAVOR OF THE COMPANIES. VERY SPECULATIVELY ONE COULD GUESS THAT THE GOVERNMENT MIGHT WELL BE COUNTING ON AN ADVERSE COURT DECISION TO FORCE A CHANGE IN POSITION BEFORE THE DECREE PROVES UNWORKABLE IN THE MARKET-PLACE. IF SO, THE GOVERNMENT WOULD HAVE DEMONSTRATED ITS DETERMINATION TO IMPOSE THE \$1.00 TAX, THEREBY UNDERCUTTING ANY POSSIBLE CHARGES THAT COSTA RICAN OFFICIALS, LIKE THEIR COUNTERPARTS IN HONDURAS, MIGHT HAVE SOLD OUT TO THE BANANA COMPANIES, AND WOULD HAVE BEEN RESCUED BY THE COEPA RICAN COURT SYSTEM FROM THE ECONOMIC CONSEQUENCES OF THEIR ACT.

7. AT LEAST ONE OTHER POSSIBILITY REMAINS -- THAT THE NEW COSTA RICAN TAX LEVEL MIGHT PROVE SUSTAINABLE. THIS SEEMS UNLIKELY UNLESS ECUADOR SHOULD DECIDE TO JOIN THE UPEB TAX SCHEME, BUT GIVEN THE DIFFI-

CULTY OF PREDICTING COMMODITY PRICES, THE POSSI-
BILITY THAT THEY MAY NOT FALL AS EXPECTED BY THE
COMPANIES, CANNOT BE RULED OUT.
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